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C O N F I D E N T I A L SECTION 01 OF 02 CONAKRY 000491

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SUBJECT: WORLD BANK RES REP COMMENTS ON CNDD'S FINANCIAL PRACTICES

Classified By: POLOFF MICHAEL E.CARTER SR.FOR REASONS 1.4 (B) AND (D)

¶1. (C) Summary: Siaka Bakayoko, the World Bank (WB) representative in Guinea, maintains that the WB's assistance to Guinea will remain frozen until a civilian government is in place. Siaka commented on the lack of transparency under the CNDD, the CNDD's lack of expertise and suspicious budgetary practices. The CNDD may be driving the country's economy into the ground as it looks to shore up its hold on power. END SUMMARY.

WORLD BANK LIMITS INTERACTIONS WITH CNDD

¶2. (C) During a recent meeting with A/DCM, Siaka stated that the WB's position towards Guinea remains unchanged. All WB assistance will stay frozen until Guinea has a civilian government in place. In support of this position, Siaka's headquarters has reportedly directed him not to meet with Dadis or other ranking members of the CNDD.

QUESTIONABLE FINANCING

¶3. (C) According to Siaka, Guinea's ongoing economic crisis has only been exacerbated by the CNDD's inept governance over the past eight months. Siaka noted that very little government revenues are actually passing through the Central Bank, making the flow of funds almost completely opaque. Although he has not had access to the GoG's books for a few months, Siaka said that the GoG is essentially paying salaries and keeping up with debt service payments, but all other expenditures are directed toward military projects. Many Government ministries have been operating without a clear budget since January. The Prime Minister told diplomats in July that he has received no salary in six months.

¶4. (C) At the same time, Siaka said that GoG expenditures are higher than revenues. Citing an example, Siaka said the CNDD recently dispersed \$30 million for new military uniforms. Reports of "gifts" from the CNDD to various groups are common. When asked where the unexplained funding might be coming from, Siaka said he could not be sure, but speculated that it might be coming from Chinese investments (reftel).

¶5. (C) He also mentioned unsound financial practices such as demanding advance payments on anticipated tax revenue. To illustrate, Siaka pointed out that the Ashanti Gold Mining Company (SAG) had recently paid the CNDD \$22 million in advance tax revenue and another \$10 million as a "fine" for environmental damage.

NO QUICK FIX

¶6. (C) According to Siaka, the CNDD lacks a basic understanding of the type and scope of the solutions needed to address Guinea's economic challenges. As an example, Siaka commented on Dadis' plan to fix Conakry's electrical problems within three months, reportedly by buying additional generators and plugging them into Conakry's deteriorating electrical grid. These new generators would be incompatible with Conakry's electrical system, meaning that extensive upgrades would need to happen before the generators could be utilized. The existing grid currently losses 30-40% of any power generated. Even if Dadis' proposal were feasible, it would not address such chronic problems.

¶7. (C) The World Bank had been ready to launch a major electricity project valued at \$80 million, and had already conducted an extensive study evaluating necessary sectoral reforms and infrastructure needs. According to Siaka, all that was needed to launch the project and improve electricity and infrastructure was a few signatures from the GoG, but they were too disorganized to provide them.

COMMENTS

¶8. (C) Siaka has been increasingly frustrated with the lack of progress in Guinea. Siaka's frustration seemed to emerge towards the end of the Conte regime and has only grown under the CNDD. He is actively looking for another assignment since he "has nothing to do here." Alternatively, he is

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looking to do temporary assignments to his regional headquarters in Accra.

¶9. (C) Siaka's comments suggest that the CNDD may be driving the country's economy further into the ground, which is consistent with other available information. Desperate for cash, the CNDD appears to be mortgaging its future revenues not only to keep the government afloat, but also to finance major military projects. As the transition drags on, the situation is likely to get worse. END COMMENT.

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